# Between automatic and authoritarian Price-Making

by

Edwin G. Nourse.

THE BROOKINGS INSTITUTION

Pamphlet No. 31

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# Between Automatic and Authoritarian Price-Making

[Chapter I of the forthcoming book
Price-Making in a Democracy]

BY

EDWIN G. NOURSE

WASHINGTON, D.C.
THE BROOKINGS INSTITUTION
1942

The study upon which this pamphlet is based was made possible by funds granted by The Maurice and Laura Falk Foundation of Pittsburgh. However, the Falk Foundation is not the author, publisher, or proprietor of this publication and is not to be understood as approving or disapproving by virtue of its grant any of the statements and views expressed herein.

# PREFATORY NOTE

INTRODUCING A BOOK WHICH IS BEING SERIALIZED IN PAMPHLET FORM

For some three years, I have had under way a study of the modern workings of the private enterprise system, approached from the standpoint of price and production policies. Attention to and interest in this theme appears now to be so active and so steadily mounting that it would be wise not to postpone publication longer, even though some details of analysis and exposition, especially in certain of the later chapters, are yet to be worked out. It has therefore been decided to inaugurate publication of this study in serial form as a group of twelve pamphlets, one of which is to appear each month during 1942.

We believe that this procedure has two advantages beside the earlier presentation it makes possible. The final volume will extend to some 375 or 400 pages and, in view of the character of the subjects discussed, may prove a somewhat formidable reading assignment in these busy days, even for those particularly interested in the problems with which it deals. But anyone can find a period of leisure sufficient to read a pamphlet of 25 to 40 pages. Furthermore, the interval between pamphlets gives the reader time to turn over in his mind each section of the argument and define his own degree of acceptance or points of dissent. Thus he can mature his own thinking as he moves from one chapter to another over a longer period than is ordinarily devoted to the reading of any particular book.

From the standpoint of the author also, this extended contact with the reading public has marked advantages.

It is hoped that many readers will write the author with reference to points at which they find the argument unclear or in their view faulty as to its statement of facts or the reasoning based upon them. Many of these comments will undoubtedly contribute to clearer statement and a more close-knit argument as the text is revised for presentation in ultimate book form. Some of these reactions, too, will no doubt prove highly illuminating and entitled to consideration as alternative interpretations even where the writer does not find himself able to accept them. In a number of such cases it is hoped that the commentators will grant the author permission to print these statements as footnotes in the final volume. Subsequent readers will then have an opportunity of seeing the play of different minds upon the problems raised and will perhaps find their own thinking enriched and clarified as a result.

In order that the present pamphlet may be seen in the perspective of the volume of which it is a part, the full list of chapter titles is shown on the opposite page.

EDWIN G. NOURSE

Institute of Economics
January 1942

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### *PRICE-MAKING IN A DEMOCRACY*

## CHAPTER I

# BETWEEN AUTOMATIC AND AUTHORITARIAN PRICE-MAKING

The coming of world war has forced businessmen to concentrate their attention sharply on short-run problems of getting maximum output in accordance with specifications and schedules drawn up for them by the military experts. The public, too, has become preoccupied with immediate questions of jobs gained or lost, of high taxes, "defense savings," and consumer deprivations. For managers, workers, consumers, and legislators alike, ordinary economic issues, even those of the most fundamental sort, have been pushed into the background by zeal to serve a common cause in the hour of crisis.

But though this war activity and war psychology may dim our recollection of the economic problems we were wrestling with a few months or a few years ago, it has by no means blotted them from our minds or furnished solutions for them. Nor does the war bring any comforting assurance that there will not be a sharp resurgence of these problems a few months or a few years hence, after the guns cease firing.

In fact, in the minds of many, the war actually heightens the tension of our thinking as to the long-run future of economic life. It is easy to detect an almost desperate sense that this war is a sort of "last chance" for economic civilization. As to its military aspect, there is a growing feeling that the war must eventuate in some form of world-embracing delegation of police power adequate to keep the peace. With that assured, economic men might in future devote their efforts consistently to the tasks of producing material well-being, their lives no longer mortgaged to the dirty business of destruction. On its economic side, war's end must forward or at least not impede institutions and practices of economic life in which strong incentives, skillful technical direction, provident handling of property, and efficient organization may be effectively combined. Only so can the mass of citizens find the dark days of "sweat and blood and tears" ushering in a new day of work and abundance and harmony.

During the depression of the 1930's, and particularly after the advent of "the New Deal," our minds were directed with new energy to re-examining—and often challenging—the economic system under which we lived. Fresh attention was given to the age-old problem of how men can most effectively organize themselves for making a livelihood. And, as generally happens in such cases, opinion divided. There were conservatives who emphasized, and perhaps exaggerated, the virtues of ancient business forms and practices. There were radicals who were excited, and perhaps intoxicated, at the prospect of revolutionary changes—Communist or Fascist—which were being experimented with in other countries. And there were moderates of many varieties who thought that peaceful progress could best be found in some eclectic combination of old-fashioned individualism, newly awakened government responsibility, and large-scale voluntary co-operation after the manner of Sweden's "middle way."

Whatever the division of thought, such objectives of mass well-being were, as a practical matter, coming to be approached through more vigorous measures of political leadership and through the more active intrusion of government into the economic sphere. This very fact has led to no little apprehension among businessmen. Many of them fear that further centralization of effort under government agencies, inevitable in the war period, may furnish both the occasion and the means for putting government permanently in charge of economic life. They fear that "the American way" of business is seriously threatened, that possibly an economic system which we had been wont to consider an integral and essential part of our democratic heritage may now be doomed. They foresee the end of free business enterprise under private capitalism, coming either in a single swift stroke at the end of the war or in a few long strides rapidly timed. Even in the latter case, they see but a few more years left for the system in which they have been reared and to which they are still devoted.

The quotations presented on pages 4 and 6 give a representative sample of the views which prominent American business executives entertain both as to the virtues of our traditional system and as to the dangers by which it is now beset. Though obviously these men have vested interests, it would be cynical to doubt the sincerity of their belief that what they refer to as "the American way" of private capitalism, with free enterprise and the profit motive, is a sound and productive system for the conduct of our joint economic effort. But neither these quotations nor the general run of similar discussions make very clear the precise nature of these institutions as conceived by their proponents or the exact process by which national well-being is to be achieved. Different spokesmen use the terms in different senses, but they give a broad impression that these are simple, absolute, and permanent facts of economic life. In fact, they are complex, relative, and changing.

IN THAT DAY when our Constitution was written and the principles and concepts of our young nation established, business leadership was sought as a matter of course. Today business leadership should again be looked to for guidance when those principles and concepts are under fire. The Constitutional Convention of 1787 dedicated our nation to individual freedom, to free enterprise and to democracy. This Congress should resolve itself into a rededication of those principles. . . . Conflicts abroad emphasize to Americans the priceless value of our way of life. To understand . . . and protect [it] against today's onslaughts of alien philosophies, demands a thorough understanding of our basic political and economic concepts. . . .

Our convention program will discuss the accomplishments and opportunities of private enterprise with emphasis on that system as a force for social progress, the creator of high living standards, the stimulant to cultural advancement, the mainstay of national defense and the path to, and through, new frontiers. . . . What were the specific advantages and benefits strikingly apparent in countries where democracy and private enterprise flourished? Economically, standards of living were raised. More of the world's goods were made available to more people. The invention and creation of new commodities, new processes, new services enriched the lives of many instead of only the few. . . .

The doubts of our generation concerning the capacity and function of private enterprise . . . today root in the departures we have made from our true course. It is the fundamental necessity of a return to our original concepts of the democratic way of life.

Howard Coonley, address before 44th Congress of American Industry, Dec. 6, 1939.

Economic life is a social process in a continuous state of evolution. Exploration, science, the technological processes of production, corporate structures, commercial procedures, the legal mandates and prohibitions, even the intellectual atmosphere within which men conduct business affairs—all these have greatly changed during the last fifty, twenty, even ten years. Under a system still eligible in 1941 to be called private capitalism, the private capitalist is a quite different functionary than he was in 1787. The free enterprise that campaign orators defended in the autumn of 1940 was not conceived in the same terms nor buttressed by the same property rights and codes of practice as those established by the Founding Fathers.

It is important, therefore, that, well in advance of the return to peace and its opportunities, we re-examine the character of our economic institutions and our past business practices. We must analyze the changes which have been taking place—or the lack of change—to discover whether steps have been taken, adjustments made, which would keep the process of economic life active and healthy under private management.

If capitalism and private enterprise are to be maintained or in some sense restored after the war, the general public will have to be satisfied that this system furnishes them as high a measure of material well-being as can reasonably be expected under any practicably attainable alternative. Both the businessman and the citizen should consider with open mind the principles upon which a system of free enterprise operates and the conditions which must be met by those who seek to live under it if it is in fact to bring about for all parts of our economy the largest degree of success and satisfaction of which it is inherently capable.

OUR TASK [is] to save free enterprise . . . to *prove* what America has always known in its deep folk-mind to be true—that a free economy is the base and bulwark of all the freedoms which the common people wisely demanded be defined in the United States Constitution's Bill of Rights. What the people want is definition. Facts and figures and blueprints, an argument as obviously truthful as the hole-proof pattern of two-plus-two-make-four, and as simple as A-B-C, and as dependable as the multiplication table. Give America that, in human terms it can trust, and it will have no time for unsound teachings and purple promises. . . . Industry is no longer on the defensive. We are not cowering in the shadows of a forgotten doorway of the temple of American life. The soldiers in the cause of a free economy and free enterprise are marching men. We are moving to the defense of America. The thump of our drums is the steady beat of the American heart. Industry's defense of private enterprise today is the defense of all the American freedoms. . . . Events in Europe demonstrate that when private enterprise is replaced with political control, free government and human freedoms fail inevitably.

C. M. Chester, address before 45th Congress of American Industry, Dec. 13, 1940

THE AMERICAN Federation of Labor supports our American capitalistic system and free enterprise (as the labor men wished to call the system) just as vigorously as we support trade unions and the right to organize and bargain collectively. We regard both capitalism and trade unions as essential factors in the maintenance and perpetuation of our democratic form of government.

William Green, president A. F. of L., interview in Washington *Sunday Star*, Nov. 24, 1940.

This understanding can be attained most readily through analysis of the price-making process.

### PRICE-MAKING A KEY TO ECONOMIC ANALYSIS

Our modern economic world is organized and conducted primarily in terms of money exchanges.[1] The results of our economic management, private and public, express themselves primarily in prices of goods and services and in the money incomes of the various participants in the economic process. If business organization or practice is bad, the ill effects are seen in prices; if prices are unconsciously distorted or intentionally manipulated they lead to disruption of markets or demoralization of production and consumption. Pointing the way to maximum efficiency in price-making institutions and practices is the goal of economic science in a free country.

Prices fall conveniently into three classes, according to the processes by which they are arrived at. At one pole is the simple, natural, flexible kind of prices that emerge spontaneously in free markets patronized by individual unorganized producers and buyers. These we shall call "automatic" prices, since no individual or agency assumes any particular responsibility for them. At the opposite pole lies "authoritarian" price-making. Under it, prices do not emerge spontaneously in free markets but are registered by a formal procedure of "price-fixing." Public control undertakes to direct the course of prices as part of a planned economy. This centralizing of power and responsibility holds a strong appeal for some minds, but many turn from it with grave apprehension.

Between these two extreme types of price-making lies the middle ground of "administered prices"—those

[1] This "price system" will be discussed in more detail in Chap. V.

to be found in situations in which the seller is a sufficiently important factor in the market and has sufficient control over productive resources to make it possible for him to adopt and carry out a price-and-production policy.[2] This area embraces the major part of modern industrial life[3] with its large corporate producers, chain stores, trade associations, collective bargaining unions, and co-operative organizations. And yet the peculiarities, possibilities, and demands of this kind of price-making have by no means been mastered by businessmen or adequately examined by economists. We can best approach its description and analysis by examining briefly the characteristic features of the systems which flank it on either side.

## AUTOMATIC PRICES UNDER SIMPLE COMPETITION

The essence of automatic price-making is to be found in the process of individual bargaining. Economics got its start as a branch of formal learning at a time when the tide of individual freedom of productive effort and bargaining activitiy was just beginning to rise or to be revived. Serfdom and feudal obligations had been largely done away with. Exploration and colonization

[2] To a lesser extent, the administrative control of prices vests not in the seller but in the buyer, who occupies a similarly strategic control as large-volume productive consumer or distributor.

[3] This statement would be challenged by some in the ranks both of businessmen and of economists. There is division of opinion between those who ascribe much importance in the price-making process to the policy factor in executive action and those who concede it only slight influence. The former attribute great significance to the making of choices, including the choice to alter situations. The latter argue an extreme deterministic philosophy and reduce the businessman, no matter how large his firm or impressive his nominal authority, to the position of economic automaton. My own views as to the scope and nature of price policy (linked with the various aspects of production policy) put me in the former group. They are set forth in general terms in App. A. The grounds for this position are explained in more detail in subsequent chapters of this book.

had increased the mobility of labor and the activity of trade. Labor unionization and corporate organization had not yet emerged. Money exchange was highly developed, but financial controls had not grown beyond the individual or family limits. While handicraft had begun to yield to factory methods, establishments were small, separate, and largely personal in both ownership and management. From top to bottom of society, the individual was released from old obligations and endowed with new rights and resources. Personal competition had not been absent before this time, but it had been after the manner of animals fighting over an inadequate "kill." The new competition which emerged in the late eighteenth and early nineteenth centuries took on a more dynamic quality as increases in productive efficiency, derived from new explorations and techniques, became more and more available.

The times begot their relevant philosophy. Adam Smith gave it classic expression. The heart of his doctrine was that if the individual was left free to exert himself in the midst of opportunities and was held responsible for his own well-being, self-interest would produce results better than could be achieved under any program of official direction. Prices, reflecting the actions of economically free men, could not be quarreled with any more than one could quarrel with the thermometer for registering the temperature. Moreover, this free price system would, like a thermostat, be not merely a recording device but also one of control. If prices went up sharply, production would be stimulated to reduce the shortage; if down, it would be checked until the glut was relieved.

Under such conditions, it was reasoned, the seller, if his sales returns do not permit him to recoup costs, will shift his effort to some more promising line of endeavor. This will keep labor and capital always moving away from the spot where production is relatively overdone and, since everyone is free to enter any business, toward the places where production is so scarce as to cause product to command a premium over costs, that is, profit above the normal. Thus the nation would benefit from sound guidance and co-ordination of activities as well as from the greater stimulation derived from the freeing of individual enterprise.

In this remote and somewhat idealized situation, prices will be registered automatically as the expression of the balance which spontaneous supplies and demands strike in the market. The "economic man," using only common sense in the pursuit of the individual interest or advantage which he can see just beyond the tip of his nose, may be relied upon to keep supplies constantly adjusting themselves to demands. *Laissez faire* becomes the almost obvious rule of conduct for government in its relation to economic life. There are no unemployed workers since everyone has the opportunity for self-employment, no idle funds since capital is saved only under the spur of an adequately rewarding price or interest rate, no persistently unutilized plant capacity since an "economic man" will accept a lower rent in preference to disuse.

While it was the professional economist who elaborated this theory of automatic price-making, the business-man has been quick to admire the picture and accept it for himself. He has indeed been prone to put it forward as an explanation of price movements even today, although conditions are quite different from those to which the original theory was applied. The major point in that difference is that economic life is no longer carried on in any large proportion by individual producers and traders. Great blocks of capital, management, and labor having crystallized in modern business, the flow of automatic price-making and its accompanying economic adjustments gives place to consciously previewed and purposely directed group operations.[4] To facilitate these developments or to remedy defects in the economic society thus evolving, government has piled up enabling acts and regulatory acts until the automatic price-making process of laissez-faire theory (and partial application) has largely disappeared. While some people take alarm at this change and seek the restoration of the automatic system, others place their hopes in the elaboration of fuller and better controls.

### THE FACE AND FORM OF AUTHORITARIAN PRICE-FIXING

In our own country, we have had a small but growing amount of price-making by government authority. In the main it has been limited to public regulation of prices charged by private producers, the object being to protect consumers by setting maximum prices or to protect producers by setting minimum prices. Examples include public utility regulation, railroad rate control, the Guffey Coal Act, and both federal and state milk controls. More general schemes of price-fixing reappear perennially as proposals for dealing with the agricultural prob-

[4] In this connection, it is of course worth remembering that in the earlier days when firms were small, markets also were severely restricted in size by the lack of easy means of transportation and communication. Competition in these markets was also inhibited by the lower level of public intelligence and the stronger hold of habit and custom. In appraising the situation of a century ago and that of recent decades, therefore, it is easy to exaggerate the force and flexibility of competitive forces then. But, by the same token, it is easy to underestimate the extent to which similar forces operate in the altered situation presented by large-scale industrialism in a world of cheap transportation, swift communication, and high intelligence.

lem, and the ultimate scope and character of price control under the war influence is yet to be seen. Abroad, we see comprehensive systems of authoritarian price-fixing under Communism, Fascism, and the National Socialism of the Third Reich. Many of them go beyond the regulation of prices and rates charged by private business to include prices fixed by government agencies which are themselves producers.

It is indeed a striking feature of experiments which begin with mere price regulation that they rapidly spread to ever wider controls over the field of business. Once a price or group of prices has been formulated and promulgated, the control agency may find itself called upon to take active steps to support and effectuate it in the market. The productive system, bereft of the former free price guidance, however perfect or faulty, must be directly controlled as to its technique, volume and timing of investment, choice of goods to be produced, and their volume and quality. The ultimate end toward which such a development tends is a planned economy in which production must be scaled, demand rationed, priorities established, techniques adjusted, capital channeled, labor mobilized and controlled to put the public's consumption and the business world's system of production in working harmony with the official price structure. Some directive agency as national brain must supervise the beating of the nation's heart, the breathing of the nation's lungs, the functioning of organs of secretion and excretion, and the co-ordination of muscular activity. It is no longer left to the nervous reflexes of price response. While it may be convenient for purposes of business and domestic management to retain the mechanism of money wages and price exchange, this is only a nominal price system, an administrative convenience rather than a significant factor in economic organization or a vital element in social functioning.

Many, perhaps most, of our citizens would hesitate to embark on so sweeping a program of politico-economic change as is here sketched[5]—all the more since they have witnessed various types and stages of its experimental development abroad. Some of them, in despair over the shortcomings of our present price-and-production situation, look longingly toward partial or complete restoration of the low-level safety of spontaneous price-making under small-scale competition. Others, who feel that such a return to a small-unit system of organization would entail too great a check to technological progress, still believe that economic direction cannot be left to either individuals or groups. They discuss a goal of high-level safety and efficiency conceived in terms of "the general welfare" as formulated by a headquarters staff and effectuated through "the provident state." The milder types of "economic planners" think in terms of merely advisory economic guidance, complementing a system of business operation still predominantly private. The more ardent planners show a clear distrust of the ability of private agencies to function for the public good.[6]

[5] Instead of starting with price-fixing, authoritarian incursions into the economic field may, of course, start with measures which act directly upon scale or direction of productive effort, investment, market exclusions or diversions, credit extension, or the mobilization of labor. These are likely to affect prices indirectly. On the other hand, non-price controls under a totalitarian régime may be of kinds which alter income distribution or which allot goods and services to consumers in such ways as to change the pattern of economic welfare with little or no change in the price structure.

[6] Though strong in their confidence as to the ability of commissars, bureau chiefs, and professionally trained administrative agents to discharge the weighty duties of directing such a system with the skill, firmness, flexibility, and vision as to technical and organizational progress which would assure maximum satisfaction of the material wants of the population as a whole.

"Parity prices" under the Agricultural Adjustment Act, coal prices under the Guffey Act, and a variety of minimum wage and rate regulation schedules are fragments of a conceivable system of general authoritarian price-making. With the success of one fixation depending on other prices' being brought into consistent relationship, there is discernible in these separate attempts to remedy specific price ills a gathering momentum toward comprehensive price control, and its attendant production and consumption control.[7]

No doubt the faults in our price structure which prompted these regulatory devices were real. Relief of specific difficulties has unquestionably been afforded under some of the regulatory devices applied. But before we commit ourselves to an enlargement of these efforts or elaboration of the parts into an all-embracing plan of economic organization under authoritarian price-making, alternative possibilities should be intensively studied. This turns our attention to the prevailing scheme of price-making in American business. In spite of remnants of automatic price-making and some intrusion of authoritarian price-making, our system is predominantly in the hands of private businessmen, but considerably centralized as to control over both prices and the productive operations related to them. It has well been called a system of "administered prices" or "monopolistic competition," whether among few or many competitors.

### THE DUAL NATURE OF "ADMINISTERED" PRICES

Administered prices, though clearly distinguished from either automatic or authoritarian prices, partake of the nature of both. They are like automatic prices in

[7] This excludes from consideration special wartime controls and the possible retention of some of them after the war.

that producers with great freedom to make whatever product they like on such a scale as they see fit trade in an open market for any price that they find acceptable. Administered prices depart from the theory of automatic price-making in that producers are differentiated as to product, location, or other significant factors and in that the individual concern makes a sufficiently large percentage of its distinctive articles (with attached services) so that it can exercise a price policy and give the policy some degree of force through its control of the volume of output. This ability to administer a significant volume of resources under a production and price policy give many large industrial executives a power of control akin to that of a public agency engaged in authoritarian price-making.

On the other hand, price administration by private firms is unlike authoritarian pricing in that the corporate executive must operate within the limits of a price system in which he must pay wages and salaries that will attract the necessary kinds of workers and charge prices which will permit the absorption of his product and maintain earnings which will preserve his capital, provide for its necessary growth, or so fortify his credit rating as to permit necessary borrowings. That is to say, he must face the responsibility for his own acts within the bounds of his company rather than absorb them in a total economy as a political dictator may do.

Corporate price administration is unlike authoritarian price-making also in that the policies of the several executives do not ordinarly become parts of a conscious program of general economic welfare.[8] It is a common fear, based on a considerable body of experience, that

[8] This perhaps overstates the extent to which general welfare is the objective of authoritarian régimes. National aims are generally para-

such solidarity of action as is developed, such planning as rival concerns in an industry do exercise, seeks only to advance the common interest of the particular group and tends to exploit the public. Whether this tendency is inevitable and perhaps cumulative or whether there is any factor of self-correction is a matter of great importance to the future of private economic enterprise and one which will be examined in some detail in succeeding chapters. Clearly, however, the administrative price and production actions of the executives of large manufacturing and commercial corporations do not unconsciously but dependably achieve the stimulation of progress and co-ordination of effort for the nation's economic life. If such results are to be attained, it must be through conscious purpose and a sound grasp of the nature of economic forces and the business institutions through which they operate.

Executive responsibility is the keynote of the "administered price" situation. This is in sharp contrast to the automatic system. There, however egregious the blunders of the individual enterpriser, the general tide of business would not be appreciably disturbed, and to its onward march he could promptly readjust his private affairs. Since the structure of small business organization does not rise very much above the ground, the danger of any catastrophic collapse is precluded. Under authoritarianism, on the other hand, responsibility is centralized in the "provident state" much more fully than under our scheme of private but large-scale enterprise. Labor is assigned to its task and shunted to its place of

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mount but likely to be qualified by some group or class preferences—proletarian, religious, ethnological, or what not. Authoritarian economic and social planning, however, sets goals of national well-being which include maximum development of productive resources.

work.[9] Capital is abstracted from private income or property and committed not to such enterprises as appeal to the wish or judgment of its erstwhile owners but to such as conform to the economic plan of the nation's economic leader. If his judgment proves fallible, a single mistake may entail collapse of the whole towering structure of the controlled economy.

The dangers incident to power are, however, not absent from the régime of "big business." So long as technological necessity and organizational efficiency dictate the retention of large-scale business units, responsible executives, courting opportunities for business development and personal emolument, draw down upon themselves a very substantial measure of economic responsibility. They become trustees for the preservation of large blocks of capital; for furnishing employment for substantial groups of working people identified with that province of the economic domain which they undertake to administer; and for the purveyance to consumers in general of various goods and services in measure compatible with the richness of our natural resources, our working capacities, and our willingness to exert ourselves in the supplying of our wants. "Big business" presents opportunities for the skillful direction of the economic life of a principality which may be very large as compared with the economic enterprise of an individual but each of which is small as compared with the economic life of the nation.

The economic self-interest of universally free individuals no longer acts as an Invisible Hand to guide business on the right way. This guiding hand is stayed when the free individual enterprise of the masses is

[9] L. Hamburger, *How Nazi Germany Has Mobilized and Controlled Labor*, Brookings Institution Pamphlet No. 24 (1940).

superseded by the group enterprise of corporate industry, trade, and finance. Responsibility for determining the direction of the nation's economic life today and of furnishing both opportunity and incentive to the masses devolves upon some 1 or 2 per cent of the gainfully employed.[10] It becomes necessary, therefore, to ask what

[10] Of 56 million gainful workers in 1939, there were 43.7 million in the ranks of industrial and commercial employment, chiefly corporate. Of those so employed, 3 million are classed as "managerial" employees, most of them routine supervisors rather than responsible directors of business affairs. How many of the latter are there?

Since there are approximately 500,000 active corporations in the country, we might, if we assume that each corporation had a single directive head, take that figure as measuring the group responsible for the tempo and efficiency of our industrial, commercial, and financial life. Obviously, most corporations have a group frequently running to scores and occasionally to hundreds who have some real voice in making policies and effecting the character of business enterprise within their respective concerns. On the other hand, the nominal heads of many small corporations have so little scope of discretion, so little capacity for exercising it, or may be such virtual subsidiaries or "tied" companies of larger concerns that they do not in fact exercise a directive function in any real sense. Probably it would be an exaggeration to say that a million executives (an average of two per active corporation) directed 40.5 million workers. This would center economic enterprise in 2.5 per cent of the working force of organized business.

These figures are based on estimates presented in Spurgeon Bell, *Productivity, Wages, and National Income* (1940), p. 10 and App. B. *Fortune* (February 1940, pp. 58 ff.) derived a figure of "30,000 managers" of United States business by crediting "four or five top executives" each (together with a few outside lawyers, engineers, and other specialists) to the 5,650 corporations of 5 million dollars or more which account for 75 per cent of all corporate assets. This estimate of "30,000 managers" they check by comparing it with "the government's list of those receiving $15,000 a year or more from corporations." It is clear that many corporations below the 5 million dollar level are significant factors in determining the character of national enterprise, and executives below the $15,000 salary bracket are often important executives in these or even the larger concerns. *Fortune* itself suggests that "judgment" begins at $6,000 in the corporate hierarchy. Unfortunately, there is no government figure for this salary group comparable to the one quoted for $15,000 and above. Undoubtedly the group multiplies rather rapidly between $15,000 and $6,000, but even if it increased nearly ten-fold, it would still appear that the real directive function converges upon an administrative group which makes up less rather than more than 1 per cent of the business population.

principles of economic organization and direction the members of this small group are actually applying to this great task and what in fact are the fundamental principles which must be relied upon to guide them to the goal of true success.

In a preceding volume,[11] we examined numerous concrete price policy situations in which reduction of price (or comparable improvement in quality) translated efficiency advances into consumer gains. This study pointed out how "pacemakers" of American business had in fact passed the gains from technological progress on to the consumer to a degree which has permitted considerable rise in living standards of our people, and it argued that if such policies were "generalized" over industry and trade, much further economic progress could be made. Some critics have maintained that, however true the logic of this statement, it is essentially unreal. They have asserted that situations in which progressive price reduction is possible are rather sharply limited, and the possibility of generalizing such a course remote or nonexistent. This objection in fact rests upon a faulty analysis of some of the basic factors entering into many of these situations which are regarded as impregnable to the general principle of price adjustment.

We shall examine this issue further in the present volume. In so doing, we shall divide our inquiry into two clearly distinguishable questions. (1) Is the following of a low-price policy economically unsound or impracticable? This question is explored particularly in Chapters VI to XI, after certain premises and approaches have been examined in Chapters II to V. (2) Is the following of such a course unlikely to be attained in prac-

[11] Edwin G. Nourse and Horace B. Drury, *Industrial Price Policies and Economic Progress* (1938).

tice because of psychological, organizational, or legal difficulties in the way of putting such a policy into practical operation? This question is analyzed in Chapters XIII, XV, and XVI.

It seems also that we should now extend the argument of the previous volume so as to include certain time considerations of a relatively short duration. Our discussion of price policy developed from a broad exploration of the "distribution of wealth and income in relation to economic progress." The emphasis there was on the long-run economic process. We sought to postpone so far as possible any consideration of the disturbances of the so-called business cycle while we were trying to clarify the workings of those fundamental forces which operate continuously. It is obvious, however, that as long as we have cyclical disturbances, every price must be made in one phase or another of a business cycle. Any practical application of the general principle of price adjustment must include careful consideration of the time at which such action may and should be taken. In order both to continue the orderly examination of the ramifications of our general argument and to correct confusion to be noted in some quarters between this and the argument for "price flexibility" as a cure for depressions, Chapter XI will be devoted to discussion of "the timing of price adjustments."

## DOES THIS APPROACH REVEAL A BIAS?

Since *Industrial Price Policies and Economic Progress* was not a forthright denunciation of current business practices, a plea for "trust-busting," or a brief for increased governmental regulation, some readers were disposed to interpret it as a complacent eulogy of business as it operates today—particularly "big business."

There was, however, no thought on our part either of "painting the lily" or of formulating a scheme of apologetics for things-as-they-are. But any attempt at constructive criticism of human institutions that fails to discover and properly evaluate the elements in the situation which are sound and useful is as unsatisfactory and untrustworthy as one which ignores those with harmful tendencies.

Our studies led us to believe that many students of economic problems had become unduly preoccupied with the abuses of the past or with examples of current industrial management which have not outgrown the older patterns of shortsighted behavior. We thought we discerned numerous and significant instances of spontaneous action by industrial price-makers who aggressively utilize the powers of large business organization to accelerate the rate of technological progress and to employ varied devices of benefit-sharing in a price structure which serves to enlarge volume, maintain employment, and make for continued industrial prosperity. We believed that the analysis of how such practices were related to the continuance of economic progress should be carried through with great thoroughness by businessmen and economists working together in mutual understanding and respect. We reasoned that *if* such price-making policies and practices as some firms practice could come generally into vogue, our business system would be well on the road to achieving the level of general welfare demanded of it.

This, of course, simply raises the corollary question: Can such a generalization of the constructive methods of the leaders become the dependable practice of all or most of our business executives? The fact that this question is taken for examination rather than the question of how to "restore competition" in the old-fashioned sense, or introduce "plan economy," socialism, or authoritarianism in some new order, reveals an acceptance of certain postulates, predilections, or—if you prefer—bias. If such a bias there be, readers should be informed of it at the beginning that they may be at once aware of the foundations upon which the argument of the book is based.

Our approach presents two aspects, both of them resting upon what we believe to be sound economic grounds. The first is a belief in the wisdom and economy of evolutionary growth or institutional modification and educational adaptation rather than sharply disruptive revolutionary change. The second is a belief in the long-run superiority, in terms of high efficiency and lower social cost, of democratic private enterprise as against plutocratic or bureaucratic centralization of power. The economic argument for democracy and decentralization is too lengthy to be undertaken here. Part of it, however, will emerge in connection with the discussion of particular points in several subsequent chapters. Here we are simply concerned that the reader be made fully aware that a belief in the economic superiority of democracy is a postulate of our whole study.

The writer's other bias may perhaps best be described as a disinclination to purchase social gains at the high cost of revolutionary change if similar gains can be won by some less costly process. Revolutions appear from time to time to be socially necessary. But they involve too high a social cost to be undertaken except in truly exigent situations after all practicable means of evolutionary development, guided by the minds and hands of intelligent men, have been tried or at least thoroughly examined and found inadequate. Obviously, we must not prejudge the magnitude of the costs of even drastic change. On the other hand, we must not overestimate the thoroughness or rapidity with which improvement can be attained through adjustment and modification of existing institutions and the education and stimulation of human behavior within that institutional structure.[12]

In subsequent chapters I shall seek to explore frankly the difficulties as well as the possibility of such evolutionary change. The ultimate outcome of this line of effort must still remain in doubt until more actual experimentation and demonstration have been recorded. But as a student of economic engineering, I am ready to venture a professional opinion that a business system dominated by private corporations, some of them of great size, with less rather than more participation by government than now obtains, *could* be made to function so efficiently in the public interest that our people would be more than willing to continue that system. It is obvious that such a result is not being attained today and that this has forced two alternative questions. Shall we scrap the machine? Or can we learn to run it so that it will produce the desired results?

We have a great investment in the present system. Not a material or financial investment alone, but a great spiritual investment—the traditions, acquired aptitudes, habits of life, psychologic responses, and political shibboleths which have evolved out of many generations of building such a structure. Mere thrift in management demands that we try to conserve this investment if, within a

[12] Evolutionary modification of institutional structure is mentioned here as essential to the completeness of the thought. It embraces regulatory devices and agencies, property rights, and the like. These large and complicated issues do not come within the scope of the present study. This volume limits itself to the thought and action of the men who attempt to operate the machine as it is today.

reasonable time, we can learn to operate and adjust this machine so that it will produce the output of which it is theoretically capable.

All who share a belief in the *capacity* of private enterprise to achieve national well-being should be ready to turn to the task of studying anew its operational requirements—to see what private capitalism must do to realize its full potentialities. The next three chapters begin this task by reviewing popular and professional ideas about "free enterprise," "competition," and the "profit motive."

# APPENDIX A
# THE ROLE OF PRICE POLICY IN BUSINESS MANAGEMENT

In the February 1941 issue of the *Quarterly Journal of Economics*, the author of this pamphlet presented an article entitled "The Meaning of Price Policy." After brief comment on the background afforded by abstract price theory, institutionalism, and statistical studies of price "behavior," price policy was discussed as a complementary aspect of price analysis. The emphasis was on policy as "rationalistic innovation." While recognizing that his economic environment "imposes rigorous limitations upon the price administrator's freedom of action in a capitalistic society dedicated to free enterprise," it was pointed out that the executive of a large-scale modern corporation devises and undertakes to carry out business plans on the basis of prices in ways broadly similar to those of military command. The article then continues:

A general must operate within the limitations of the terrain on which he fights and of the personnel and material at his disposal—to say nothing of meteorological conditions. But at the same time, much depends too on the strategy which he and the high command devise and the specific tactics by which he and his officers seek to carry it out. It seems appropriate, therefore, to discuss price policy in terms of business strategy and tactics.

## PRICE POLICY AND BUSINESS STRATEGY

Perhaps the simplest distinction that leaps to the mind to elucidate the relationship between price strategy and price tactics is that the former concerns the price *level* for the given firm or industry and the latter its price *structure*. This, however, is rather too simple. Price level is only a statistical artifact and is not a concept that is much used in actual business administration. In some raw material or semi-finished product industries, "base" prices do reflect the price level idea. But for a great number of diversified producers, particular lines of goods, particular outlets, and particular transactions or operating periods crowd the foreground of the business stage. Even in such concerns, operating under conditions of monopolistic competition or oligopoly, there are questions of grand and lesser strategy to be decided which, beyond their bearing on the profitableness of the firm's operations, affect in important ways the functioning of the economy.

In broadest terms, it may be said that businessmen have only one policy, and that is to make money. It could be said with equal truth that a commander and his staff have only one policy, and that is to achieve victory. But given a general objective, policy must devise its grand strategy as a program for attaining that end. This involves determination of the general types of goods to be produced, the range of styles or models, financing, and organization of the business. On their price side, these operating policies converge on certain major and relatively long-run decisions which affect the general scale of prices to be charged by the company as the theoretical and experimental solution of a problem whose factors involve the twin issue of volumes of output and spread between price and costs—"manufacturer's margin" or "distributor's margin." The problem of "margin" at once sets the executive and his cost accountants and production managers and research workers to considering a wide range of matters covering management efficiency, plant utilization, alternative techniques, economic size, location of plants, and degree of integration. These in turn raise issues of labor displacement, wage incentives, and investment needs. If he starts from the side of volume, he is concerned primarily with purchasing power and its distribution, relative response to sales pressure or to price appeal, and possibilities of segregating his market from others by any one of a variety of schemes of product or service differentiation.

Obviously the two halves of the profit question—volume and margin—are closely intertwined. This is true both in the businessman's sense that the number of units sold responds in various ways to the price charged and also in the economist's sense that the scheme of prices for the various economic goods will determine how fully society's resources are utilized in supplying our wants. When important basic industries—steel, copper, automobiles, electric power, food products—are dominated by a few very large corporations, the price decisions of a small number of executives, accompanied by compendent decisions as to wage rates, volume of employment, capital accumulation, choice of technique, amount and timing of investment, and the like, are the basic determinants of the manner in which the whole economy is to function. As military strategy can be broadly divided into defensive and offensive, so major price strategy falls naturally under two heads, adaptive and creative. In the former, the executive uses his own brains and the resources of his organization to work out the best adjustment of his prices to existing conditions of technique, both physical and organizational. In the second he carries the war into the enemy's country and attempts to advance the fortunes of his firm by improvements in technique or organization which will permit of constructive changes in the price structure. Today, the impact of scientific advance is so great as to make this latter type of price policy characteristic of a large part of the industrial scene. In so far as this offensive rather than defensive strategy is adopted, in so far as price policy becomes creative rather than adaptive,

> . . . industrial price-making . . . instead of passively accepting the market's pricing of a supply subject to no central control . . . sets a price objective and directs a controlled productive mechanism toward attainment of that price level. With this change the price-making executive takes over from the "Unseen Hand" as guide and regulator of the economic process in a considerable part of our business world. He takes upon himself the responsibility for the standard of living for an ever-larger proportion of our people. Much as he generally hates the phrase, he becomes in fact the economic planner of our society rather

than merely the adapter of his personal affairs as best he can to a largely automatic price mechanism.[3]

At this point, however, the objection may be raised that the business executive is not a free agent but that decisions nominally his are in fact dictated by his banker, the machinery of his trade association, or the officials of some regulatory agency.[4] It is true, of course, that here we find one executive accepting the formulation of his price program by his commercial or investment banker. But there another executive may, like Ford, succeed in inaugurating an independent scheme of prices divergent from the existing pattern but expressing an internally coherent strategy of price, technique, investment, employment, wage rates, and purchasing power.[5] If, in a given case, the decision is that of the banker (or of the trade association, or the regulatory agency), this does not negative the idea of policy as a price-making factor. It simply modifies the chart of dispersion of this function. It sets us to examining the rationale according to which the banker or counsellor or commissioner decides that maintenance of wide margins or restricted volume is desirable, or that investment in labor-saving machinery shall be expanded, or settles other similar matters. Furthermore, questions of price policy, instead of being shifted to functionaries above the titular top executives of the company, may be shifted downward also to minor executives or to employees of relatively minor rank. In a general way, this is true of matters which fall below the level of grand strategy to those of minor strategy and of commercial tactics. We shall pass on, therefore, to survey briefly

[3] E. G. Nourse and H. B. Drury, *Industrial Price Policies and Economic Progress*, pp. 253-54.

[4] Or by other factors in his business environment, and hence that executive discretion is only a sort of higher behaviorism.

[5] Theoretical examination of the nature of monopolistic competition has been useful in showing the range of choices open to a firm on the assumption of certain forecasts of the course which other firms will pursue in given situations. To be complete, the theory must examine the way in which alternative courses are discovered and explored as a basis of choice and must study the *a priori* prospects and *a posteriori* results of policies which undertake constructive alteration of the market situation through a comprehensive price-production-investment policy.

these other gradations in the hierarchy of price policies.

After a military high command has decided whether it is to wage an offensive or a defensive war, *blitzkrieg* or war of attrition, it must proceed to matters of minor strategy—particular objectives, time schedules, the use and co-ordination of branches of the service, and particular implements of warfare. Similarly, after the major questions of price maintenance versus maximum technical progress and price reduction, price or non-price competition, and the like have been decided, management must proceed to minor questions of price strategy, such as the exclusion of all unprofitable lines or the intention of maintaining itself in a position to serve all the needs of a certain clientele, the eschewing of discriminatory prices or the use of some scheme of purposive differentials, the exercise or the acceptance of price leadership or the adoption of some studied course of individual pricing. Just where the line between minor strategy and major tactics begins, it would be difficult to say and probably fruitless to attempt to decide.

## PRICE POLICY AND COMMERCIAL TACTICS

That we recognize at least a qualitative difference between broader decisions which establish general principles to be followed over a wide area and a considerable period of time and *ad hoc* actions to meet particular situations of great variety and others, which, though not unique, are constantly changing, is fairly evident. Particular tactics however good do not add up to a strategy or render a general plan superfluous. Good tactics in the specific situation, however, are essential to the success of the grand strategy.[6] Similarly, the price administrator cannot be content with an answer merely to what his general pricing principles should be. With plants distributed in a given way, a wide range of productive techniques and marketing practices open to him, with consumers dispersed in various income categories, and with varying tastes, attitudes, and spending habits and propensities, the attainment of a given level of prices will

[6] Sir Edward Hamley makes the distinction: "The theater of war is the province of *strategy*; the field of battle is the province of *tactics*."

be influenced greatly by the shrewdness and ingenuity of his commercial tactics in devising schemes of quality differentiation, sales and service procedure, and settlement terms. The list of pricing practices in this broad sense which are amenable to policy decision is long. The details of differential pricing, instalment or other credit selling, seasonal patterns, full-line forcing, and a great variety of matters of advertising, high or low-pressure salesmanship, and various quality, service, and premium adjuncts recall the more familiar categories. In its ultimate development as minor tactics, pricing comes down to the thousands of individual prices of parts sold by a machinery company, the preparation of the thousand-page catalogue of a great mail-order house, the writing of price tags and planning of "sales" in a store or shop, and the making of particular deals by traveling salesmen.[7]

Here the distinction is very fine between positive price policy and routine pricing procedure. In a large corporation, with possibly thousands of individual quotations to be promulgated, it is of course quite out of the question for any top executive

[7] This involves the somewhat curious point made by Mason (*American Economic Review*, Supplement, March 1933, p. 61) that it "serves no useful purpose to attribute a price policy" unless the seller or buyer "customarily conducts his operations by means of a quoted price." Certainly the prices quoted in the Sears Roebuck catalogue faithfully reflect whatever price policy the company has, but the quotations of an iron and steel company are practically meaningless if it is the policy of the company to meet competition in such a way as "to get its share of the business" or to use price as a weapon for expanding its position. Similarly, quoted prices in the sense here used are not possible for a firm doing contract or custom work and yet it may have a very definite and conscious price policy. His point that one who sells "at the market" cannot have a price policy emphasizes the external form of the transaction rather than its inner character. Such a transaction does not mean that the seller will release his entire product or the buyer supply his whole need regardless of market fluctuations. The order is for *a given quantity* "at the market," reflecting the policy of the buyer or seller to make transactions of that amount regardless of such small change in price as he believes the market may make before his transaction is consummated. Any trader experienced in commodity markets would correct the impression which Mason shares with most non-agricultural economists that prices in such markets are not affected by price policies of co-operative marketing agencies or even by those of individual producers.

or group of upper flight men to give personal attention to the calculation of these myriad prices. What, then, shall be the scheme of price ingredients and the general rules of compilation by which the final catalogue of prices shall be derived from base prices, extras, service charges, cost allocations, and what not? And what delegations of price-making authority shall be made to minor executives, of what sort of education and experience, of what professional titles and personal predilections, and under what rules or principles of discretion? These matters of procedure will influence in important ways the manner in which a policy formulated in general terms at the top comes ultimately to express itself in prices actually realized in the market.[8] It will determine too in no small degree the impression which top executives will derive as to the consequences—in terms of buyer response or plant operation—that flow from a given course of action.[9]

In sum, then, the discretionary factor in price-making shows at times or places a high degree of concentration and at other times or places a great amount of diffusion. The way in which carefully devised strategies are implemented through consistent local action and the way in which well- or ill-conceived major policies are wrecked or are mitigated by the considered or casual divergence of subordinates' pricing practices, all are strands weaving together into the full fabric of business policy as a factor in price determination.

[8] Dr. Robert A. Gordon, on leave from the University of California, has been preparing for publication by the Brookings Institution a study of the relation of corporate structure to the development and execution of business policies. It is hoped that this study, tentatively entitled *Business Leadership in the Large Corporation*, may be published before the end of 1942.

[9] A particular phase of the question of delegation of price-making authority relates to the administrative scheme of a large corporation having numerous subsidiaries or branch plants. Shall basic price policy be decided at the central administrative headquarters (with or without participation by local executives) with some or no leeway given in local application? Or shall the initiation and character of price changes be left to local authority subject to review or veto at headquarters? The difference in the weighting given to considerations of investment, change in operative organization, consumer peculiarities, and other pertinent factors under the several procedures is obvious.

## SCOPE AND METHOD OF BUSINESS PRICE POLICY STUDIES

This general description of the field covered by business price policy may be illuminated by considering the scope and methods of the research program by which policy aspects of the price-making process can be brought within the ambit of the economist's attention and understanding. Here the task divides, as in the case of price behavior, into two general divisions—first, portrayal; second, analysis.

If the task is to be reduced to manageable form and subjected to workmanlike processes of study, the task of portrayal can be docketed under three heads. First there must be an array of the actual prices to be considered. The only comment needed here is that in such work we are not dealing with index numbers, prices in the mass, or published quotations, which make up the typical raw material of price behavior studies. For our purposes, we must have price realization in specific transactions or clearly defined situations.[1] Second, we must relate the price realization to the scheme of quotation, base prices, extras, allowances, discounts, "deals," attendant services, and what not by which the whole structure of prices as between buyers and over seasonal or other significant time periods is made up. Third, we must make explicit the scheme of thinking of all the parties, superior and subordinate, who exercise judgment, formulate a rule, or accept a routine of procedure by which these particular prices are given this precise character in the face of the total market situations which form their setting.[2]

It is the devising of methods capable of producing results in the third phase of this task which presents to us the greatest challenge.[3] The task of "capture and recording" is rendered

[1] And even here, only those sets of prices for which we can secure also those other types of data which are essential for the analytical process toward which portrayal is only the first step.

[2] The portrayal of this setting itself, though not a part of price policy studies as such, is a necessary preliminary to the analytical phase of the task.

[3] The second phase, though important and interrelated, is more baldly factual in character, and the first is shared by many types of price investigators.

particularly difficult because of the vast amount of ephemeral data involved, and the hypersensitivity of businessmen in general to outside scrutiny. The businessman has a rich but weedy field of experiential data, a wealth of shrewd knowledge of behavior both of consumers and of his fellow producers and distributors, but also intuitive rather than analytical habits of dealing with this experience and a heavy load of prejudices and fallacious notions about economic cause and effect. He may or may not give evidence of an appreciation of the possibility and usefulness of making his particularized experience accessible to scientifically trained analysts. The realistic economist and the sophisticated businessman will have to work out more mutual respect and forbearance before we can array from this field the empirical data needed in the formulation of realistic and adequate generalizations.

Early theory cramped itself by using in its analysis of atomistic competition an unreal and oversimplified "economic man." Current theory is no less weak in its attempts to explain oligopoly and monopolistic competition in terms of "the entrepreneur" vaguely sketched and naïvely conventionalized beyond recognition in the business world. We need to add realism and detail to this picture. The content of the executive's thinking, his personality, and the organization in which and through which he operates become matters of deep significance. Seeking objective study of this category of subjective factors in price-making, we cannot pursue our goal by making case histories of the training and business experience of executives en masse, get formal expositions of their views as to how the economic system works, and supplement these by personality tests and perhaps a psychiatrist's analysis. Though all these would be the scientifically indicated procedure, we must be content with less intensive examination of selected samples. Much light may be derived from careful study of a moderate number of careers of outstanding leaders and conspicuous atavists. Further analysis of the problem might suggest a manageable number of types, or a scheme of sampling might be devised which would give us, at the very least, a basis for understanding the part played by the policy-making executive much truer and more illuminating than anything we now have.[4]

Business leaders are steadily becoming more articulate, and the growing literature of business management includes considerable transcripts of the economic and business philosophy of such men as Sloan, Weir, Kendall, Batt, Prentiss, and Chester.[5] Obviously such public utterances, though they give side-lights on the thinking of these leaders, are not adequate for our purpose. They do not follow such an outline of analysis as the economist would propose. Nor are they always to be taken at face value. Thus, the president of a great tire company uses large advertising space to announce a sweeping reduction in tire prices made possible by improvement in production methods. On closer reading, it appears that the cut in quotations is in part an expression of a revision in dealer relations. How much it will mean in price realized for the manufacturer will become clear only after detailed study.

[4] Biographical studies of Rockefeller, Carnegie, Ford, Chrysler, and Sloan afford some materials of value. But these were written by journalists for the popular reader or by a historian and their authors did not ask the right questions for the economist's purpose. Miss Beard's *A History of the Business Man* missed a glorious opportunity and Barnard's *The Functions of the Executive* became lost in sociological conceptualism. Furthermore, other executives, big and little, would need to be added to fill in the picture, give it geographical and time perspective.

[5] Henry S. Dennison, besides the collaboration with an economist already referred to, collaborated with three fellow industrialists, Morris Leeds, Ralph Flanders, and Lincoln Filene on a volume, *Toward Full Employment*, published in 1938. Edward A. Filene published *The Way Out* in 1925 and *Successful Living in This Machine Age* in 1931, and a posthumous collection of his speeches and articles appeared in 1939 under the title, *Speaking of Change*. Some twenty business executives, along with an attorney and a business college dean, contributed chapters to a volume *The New Outlook in Business* which appeared in 1940. Important material for studies of price policy as well as price behavior has been made available in connection with the hearings and related investigations of the T.N.E.C. In particular, the Committee has issued a volume *Price Behavior and Business Policy*, prepared for them by Saul Nelson and Walter G. Keim under the auspices of the Bureau of Labor Statistics.

Company announcements, annual reports, public addresses, autobiographies, however, are all "human documents" which by their defects and omissions as well as by their positive contributions give us essential elements of the knowledge we seek, their evidential value depending upon the skill and rigor of the methods developed for their interpretation. In our sister disciplines, sociology and psychology, attention is being given to this problem of the use of "human" or personal documents in the social sciences in that vague but indispensable field of probative values which lies beyond the realm of objective evidence amenable to statistical or abstractly logical checking. Perhaps principles of analysis and rules of evidence will be developed which will enable us to derive insights from such studies not less important than the "proofs" that the more ardent devotees of quantification believe they derive from statistical methods. In view of the admitted inaccuracy of such documents in their raw state, it is worth remembering that most of the basic data to which the statistician must resort are notoriously inaccurate and inadequate as documentation of the facts sought.

In investigating the thought and purpose of the executive as a phase of the price-making process, we must not forget the point already made that this rationalistic factor is widely diffused throughout the business structure and that significant innovations in the lower ranks may negative the purely behavioristic response of top executives. Or, vice versa, constructive efforts emanating from the top may be paralyzed or distorted by cross-currents of thought and effort elsewhere in the organization or simply stalled by friction developing at these points. Students of price policy, therefore, will need to cover this whole gamut of the executive function. Of particular concern must be the recent but increasing development of research on price and related problems which has appeared in many of our industrial organizations.[6] Sometimes it is specialized in a particular division, sometimes scattered among cost accounting,

[6] The National Resources Planning Board has recently published a study on this subject under the title: *Research—A National Resource. III. Business Research.*

marketing, or even operative departments. Not merely must the content and method of such investigational work within the corporate structures be studied but, likewise, the extent to which and the manner in which results so developed become influential in the thought and action of officials and employees clothed with some measure of price-making authority.

Attempting, as we have, to delineate the portrayal phase of price policy studies, we pass almost insensibly over to the analysis phases. For we cannot discover and set forth the thinking, the prejudice, and the conventionalization which characterize the executive's role in choosing or creating a line of price action without such selection and grouping of material as implies some analytical consideration of the economic processes which form the context of these data. On the foundation laid by industrious and skillful portrayal of price action and its rationale in the executive hierarchy, price policy studies should proceed to the most rigorous examination of the actual effects of such relief, reasoning, or experimentation upon the functioning of the price system and its relation with and influences upon the rest of the economic system.[7] In the metaphor of price as the nervous

[7] Edward Mason warns against dangers in this realm, particularly the attempt to trace the effect upon the price-maker of a sleepless night, a good meal, or his domestic relations. But this good counsel is overdone if it urges us to fall back upon deterministic studies of "market situations" in whose fell grip the executive is conceived as but a robot. Mason himself, while using the phrase "price policy," has a habit of linking it in the joint phrase "price behavior and price policy"—as in "damnyankee." Price policy to him evidently means only that executive action which has become stereotyped. This is the behavioristic fringe of what I would call pricing practice to distinguish it from constructive or innovating policy. Mason makes approach to price policy studies through "classification of [deterministic] market situations," saying:

"The statistical approach [sic!] to price policy starts with an examination of price behavior and then proceeds to correlate various measures of price change with changes in other economic variables . . . an adequate analysis of price and production policies requires consideration of (a) the influence of the organization of a firm on the character of the firm's reaction to given market situations; and of (b) elements of market structure which include many more things than numbers and product differentiation. It goes without saying that a realistic treatment of these questions necessitates the use of analytical tools which are system within the body economic, we recognize that there are in that nervous system many motor reflexes which are not under the control of reason or volition, but we are here concerned with that aspect of the nervous system of economic life which centers in the organizational equivalent of the brain or at most the subordinate control centers analogous to the higher nerve ganglia.

Price policy studies should show the way in which the factor of rationalistic guidance fits into the operation of business concerns within the structure provided through institutions created and undergoing modification in response to public price policy. This involves several fields of analytical specialization such as the relation of price policy to techniques, to the classes of goods produced in order to tap demands of various income groups, to the wage level and wage structure as related to the adjustment of purchasing power, to investment as related both to the progress of technique and the provision of savings out of operating revenue, or the determination of their magnitude and direction through the channel of individual voluntary savings, and finally to the volume and character of employment growing out of these interrelated adjustments. Having started from study of the sources and composition of price policy and proceeded through

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amenable to empirical application. The problem, as I see it, is to reduce the voluminous data concerning industrial organization to some sort of order through a classification of market structures. Differences in market structure are ultimately explicable in terms of technological factors. The economic problem, however, is to explain, through an examination of the structure of markets and the organization of firms, differences in competitive practices including price, production, and investment policies. . . . No doubt Messrs. Ford and Firestone set the impress of their personalities on the policies of their respective industries, but the larger problem for economists to consider is the impress of large-scale business organizations on the character and functioning of the management groups that are called to control positions. . . . While the personality of Firestone, plus the fact that his firm is admittedly a low cost producer, has no doubt been an important factor, it seems probable that if Firestone, like God in another context, had not existed the structure of the tire market would have created him." *American Economic Review*, Pt. 2 (Supplement) March 1939, pp. 65, 66, 68, 71.

examination of its operational manifestations, we must follow these specific courses of action through to their effects upon the fortunes of the given firm and the well-being of the economy of which it is a functional part.[8]

[8] All these analyses must include consideration of the youth or maturity of the firm whose policy is being studied and the character of the product, new or old, producer's or consumer's good.